

**Budget and Finance Committee
Meeting Minutes
July 17, 2009**

The Bethany Beach Budget and Finance Committee held a meeting on Friday, July 17, 2009 in the Town Meeting Room.

Members Present: Jack Gordon, Chairman, who presided; Don Doyle, Jerry Dorfman, Joe Healy, Stan Berkman, Denise Boswell, and Phil Rossi.

Also present: Cliff Graviet, Town Manager; Janet Connery, Finance Director; Council member Margaret Young; interested members of the public; and Admin. Secretary, Joanna Nichols.

Call to Order

Mr. Gordon called the meeting to order at 2:00 pm.

Approval of the Agenda

Mr. Doyle made a motion to approve the agenda. The motion was seconded by Mr. Berkman and unanimously approved.

Approval of the Minutes from the February 20, 2009

Mr. Doyle made a motion to approve the minutes as amended. Mr. Healy seconded the motion and it was unanimously approved.

Old Business

Final Review of FY 2009

Ms. Connery reported that fiscal year 2009 was a good year for the town financially. General fund revenue ended with an overage of \$536,000. Two reasons for this were transfer taxes and building permits ending the year at \$223,000 and \$268,000 in excess of the amount budgeted. The Blue Surf brought in \$170,000 in building permits and \$167,000 was generated from 13 new homes recently constructed. Both these revenues were better than anticipated given the current state of the nationwide housing market. Ms. Connery stated that this gives more money for future capital projects.

Sanitation revenues ended the year \$62,000 over budget, mainly because interest was not budgeted for in FY 09 due to an oversight.

The water operating revenue was \$13,000 (1%) over budget and the water impact fees were \$33,000 (44%) over due to the higher than anticipated construction.

Ms. Boswell asked about the increase in audit fees for 2009. Ms. Connery explained this was due to the change to risk based auditing which required additional time. Ms. Boswell also questioned the cost related to the code revision. Mr. Graviet stated this was for the new code books, which will be available soon.

Ms. Connery continued to say that in regards to operational costs, the general fund ended the year 4.6% under budget. Sanitation was 6.5%, and Water was 11%, under budget. Department managers continue to work to control costs and only spend where needed.

Ms. Connery said that the Audit Committee met the day prior and the FY 2009 financial statements were being finalized. Mr. Doyle added that the auditors complimented the town's superior internal control framework. The auditors had mentioned frauds committed in other towns that our controls would have prevented. Mr. Doyle said that the auditors praised the town's work on adjusting fees, future planning and having an active audit committee and internal auditor.

New Business

Review 1st Quarter of FY 2010

Ms. Connery stated that first quarter revenue for the general fund was \$2.4 million, which is roughly half the total amount budgeted and very close to last year at this time. Due to the rate increase, property taxes are up. Transfer taxes revenue is down when compared to the first quarter of last year mainly because collections last June were very high. Preliminary projections indicate that we will exceed our budget for transfer tax revenues by \$100,000. Ms. Connery noted that there are many properties currently for sale in town limits and that the Blue Surf properties are starting to sell so transfer tax revenue should continue to be strong. Building permits are less than last year so far but there are projects in the works that should bring this revenue close to the amount budgeted.

Ms. Connery reported that she reviewed parking revenue through the day before and parking meters show a decline in use of around 8% for the year so far. The wet weather in June and the overall condition of the economy are the likely causes. Revenue from parking permits and tickets increased slightly from last year. The Town budgeted anticipating a 5% decrease in visitors so should end the year close to the amount budgeted for parking revenues if we have good weather in July and August.

Mr. Gordon commented that he does not think the decrease in meter use is a result of the increase in hourly rate.

Mr. Graviat said that water usage is less than last year, which is another indicator of fewer people in town. However, parking figures for the July 4th weekend show an increase from the prior year.

Mr. Dorfman mentioned that he believes rentals are down some from last year judging by the number of people he has seen around town. Ms. Connery said that rental tax revenue would not be known until October or November, although a decrease of 5% was budgeted from last year.

Ms. Connery added that with the economy in the shape it is in, the revenue could be much worse. Referring to the projections she did, overall her calculations showed the Town ending the year \$20,000 under budget in revenue. Sanitation revenues are down \$63,000 and water debt service revenue is down \$144,000 due to the rate decreases. Because of the Blue Surf project, water impact fees have exceeded the budgeted amount.

Ms. Connery reported that operating expenses are close to what we expected. Spending is a bit higher than in the first quarter of the prior year mainly from some work being completed earlier this year than in prior years.

She stated that grant funds are a concern this year as the State and County cut back. The State has notified that town that we should not expect to receive any municipal street aid funds this year, which were budgeted at \$132,500. The state does hope to reinstate the grant next year.

Consider creation of a policy on fund balances and reserves

Ms. Connery stated that the Town has three types of fund balances that a policy should address.

- Specific reserves such as for the Beach, Water Storage, and Emergency
- Capital replacement reserve
- Undesignated / Unassigned funds

She stated that a fund balance policy should address minimums, maximums and what to do when the balance falls under or exceeds these amounts. She presented a rough draft of a policy that requires a capital replacement reserve of 15% to 50% of the total dollar value of assets being depreciated, a figure from our annual financial statements. For the General Fund this amounts to \$10.8 million in asset so the reserve would need to be between \$1.6 and \$5.4 million.

Mr. Doyle did not feel the \$10.8 million is appropriate since it includes the cost of buildings, such as the Town Hall, and building construction is normally financed over many years. He thought the general fund assets were fundamentally different from sanitation and water assets. He also suggested using a different level of funding for the different asset types, such as buildings separately from equipment.

Mr. Healy recommended differentiating the assets as: intermediate (a life expectancy of 5 to 10 years) and infrastructure (long-term capital items).

Audience member Mr. Mulligan said that he thinks the policy is a wonderful step and he has found the discussion very thoughtful. He said that we should try to keep the policy simple and understandable. He agrees with Mr. Doyle that we should differentiate the assets by purpose and fund. For example, a reserve for trash trucks should allow for replacement of one to two trucks in a year.

Since a decision could not be made at this time, Mr. Gordon suggested Mr. Doyle and Mr. Healy work together with Ms. Connery to draft a document with their ideas and present it at the next Budget Meeting.

Mr. Doyle and Mr. Healy had no objections, and committee members agreed.

Mr. Dorfman mentioned that the committed had previously discussed funding for possible widening of the boardwalk and asked for an update on this project. Mr. Graviat answered that the project currently does not have enough sufficient support from council or the public so no further action is being taken.

Mr. Doyle mentioned discussing DELGIP again at the next meeting to get the committee's consensus on this way of investing funds.

Ms. Boswell made a motion to adjourn the meeting at 3:57 p.m. Mr. Dorfman seconded the motion and it was unanimously approved.

No specific date was yet set in October for the next meeting.

Respectfully submitted,

Janet Connery, Director of Finance